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NORTHWEST FORESTRY ASSOCIATION

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Surface Transportation Board
Office of the Secretary, Case Control Unit
1925 K Street, N.W.
Washington, D.C. 20423-0001
202-565-1674

RE: STB Ex Parte No. 582

Dear STB:

As required, attached are an original, 10 copies and a floppy diskette of the Northwest Forestry Association's comments regarding major rail consolidations. I understand that I am scheduled to address the Board on March 9. Should there be a change in the hearing schedule, please notify me as soon as possible by calling 503-222-9505.

Thank you for the opportunity to address this important issue to our members.

Sincerely,

James C. Geisinger

James C. Geisinger
President

Enclosures

cc: Senator Slade Gorton
Senator Ron Wyden
Senator Gordon Smith
Senator Patty Murray
Congressman Peter DeFazio
Congressman Earl Blumenauer
Congressman Brian Baird

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Testimony Before

The

Surface Transportation Board

Regarding

Major Railroad Consolidation

And The

Structure of the North American Railroad Industry

(STB Ex Parte No. 582)

Presented By

James C. Geisinger, President
Northwest Forestry Association

March 9, 2000

Madam Chairman and Board, for the record my name is James Geisinger. I am the President of the Northwest Forestry Association (NFA), a forest products trade organization representing over sixty forest product manufacturers and landowners in Washington and Oregon. Our membership represents a cross section of the industry from large multi-national corporations to small family owned operations.

Most of our members rely on railroads to transport a portion of their finished products to market. Some are located where they rely solely on Class 1 railroads for their shipping needs. Others utilize shortlines to connect with Class 1 railroads, while some truck their products to a reload usually located on a Class 1 railroad. On average, transportation costs are between 10 and 25 percent of sales value and are the third highest cost of production. Like coal and grain, the total tonnage of forest products relying on rail is large, however, our industry has many more producers and even more customers receiving the freight. This fact makes our situation somewhat unique and more vulnerable to changes in the railroad structure.

Consequently, any changes in the existing railroad system would have a direct impact on our members businesses and for that reason I am here to present NFA's concerns regarding the subject of major railroad consolidations and the present and future structure of the North American railroad industry.

There are three major areas of concern that I would like to address to the Board, which are: 1) The forest products industry cannot afford anymore service disruptions or difficulties like those experienced in the last round of major railroad mergers; 2) Any future changes in the North American railroad structure should result in an increased level of competition among the railroads and not further oligopolistic situations that could negatively affect service levels and rates paid by shippers and; 3) Any changes in the North American railroad structure should be both market and trade neutral.

Service

Historically, NFA has focused its efforts on forest policy and regulatory issues at the federal level, but in 1997 we became involved with railroad transportation issues due to our member's difficulties resulting from the Union Pacific/Southern Pacific merger. Forest product manufacturers from across the Pacific Northwest came to us with horror stories of Union Pacific's failure to provide a reliable means of transporting their products to the marketplace. In response, NFA worked with the Northwest Congressional Delegation and Union Pacific to find a workable solution to this crisis situation. As part of this effort, NFA responded to the STB's January 13, 1998, Service Order No. 1518, by conducting a survey of forest products manufacturers in Oregon and Washington and reported our findings to this Board. While service has dramatically improved on Union Pacific, it is still not to a level that our members had come to expect prior to the merger.

Even though, the Burlington Northern/Santa Fe's service history is somewhat better than Union Pacific's, our members continue to have problems with consistent and timely door-to-door service. Terminal to terminal transit times have been good and relatively reliable, but getting shipments to and from the terminals continues to be a serious problem and no mergers should be considered until this situation is resolved.

These types of service difficulties and disruptions have a direct affect on our members' bottom line. An inability to have a reliable means to transport their goods to the customer means higher costs and/or lost opportunities. Unfortunately, some Oregon and Washington forest products companies are still recovering from the impact of the last round of railroad mergers. While market share that was lost may return, the financial losses suffered can never be recovered.

Our ability to compete in the forest products marketplace should not be held hostage by incompatible computer systems or labor union conflicts resulting from mergers. Simply put, the Pacific Northwest's forest products industry cannot afford anymore railroad mergers until shippers are receiving an acceptable level of service and are provided a guarantee that includes a form of measurement and remedy to the shippers.

Competition

Since the first crossties and rails were laid on North American soil, people have voiced concerns regarding railroad monopolies and competition. While mergers and consolidations in the business world promote corporate efficiencies, railroads have large fixed capital assets that prevent free market principles from operating ideally. This is one of the main reasons why the federal government regulates railroads and why there is a Surface Transportation Board.

Simply put, NFA's members are concerned that any additional mergers would lead to less competition among the railroads and result in increased shipping rates. Without competition, the benefits of mergers, such as increased efficiencies, will not occur and in its place will be stagnation, complacency and disrepair. There needs to be a "critical mass" of service providers or there may be a need for some kind of intervention that promotes competition.

The approval of another major Class 1 railroad merger will result in the other major railroads attempting to forge their own deals and win STB approval. This process would ultimately lead to a North American railroad structure with only a couple of transcontinental lines. Shippers would be at the mercy of these oligopolies and ultimately sections of the nation's railroad system could collapse due to competition from transportation alternatives such as trucks, barges and container ships.

The STB must evaluate proposed mergers on the basis of whether they are in the public's interest and not whether they are in the interests of the railroads and their investors. A case in point is the Union Pacific/Southern Pacific merger approved by the STB in 1996.

The Southern Pacific was in financial trouble and disrepair. The merger with Union Pacific and the influx of new capital saved the railroad. Therefore this merger benefited the public's interest.

Trade & Market Neutrality

The wood and paper products industry is a highly competitive sector of our nation's economy. Nation-wide there are several thousand producers, with annual sales totaling approximately $200 billion. Products are shipped around the continent and the world, competing with products produced in the consumer's own local area. Therefore, since the forest products industry is so competitive, we cannot afford market externalities such as a railroad merger to affect individual producer's access to markets.

As discussed above, a two transcontinental railroad system could limit which markets producers could sell to. For example: West Coast Company X has been a major supplier to East Coast Retailer A. Retailer A's distribution center is located on Railroad 1, while Company X's manufacturing site is located on Railroad 5. Today, rail shipments are transferred at a point along the Mississippi River. Unfortunately, due to several mergers, Railroads 1 and 5 are now parts of competing trans-continental railroads and Company X loses its cost effective access to Retailer A. Such a scenario would be totally unacceptable to NFA's members.

Like domestic markets, international trade is another area where railroad mergers could have a significant affect on individual companies' businesses. International trade is an important aspect of our nation's economy. Unfortunately, trade relationships and agreements are usually more political than based in economics and such is the case with forest products. For this reason, the Board should be weary of any decisions that may have international trade implications and that could have negative consequences on domestic producers.

NFA members feel that the STB should employ a simple test for evaluating any proposed change in the North American railroad structure, which is, proposals should be market and trade neutral -- that is not benefiting one set of producers over another.

Summary

In conclusion, given the concerns stated above, we believe that there should be a moratorium on any new major mergers for a period of five years, to allow the existing railroad system to normalize and stabilize. Furthermore, NFA could not support any proposed merger that did not address our member's concerns regarding service, competition and, market and trade neutrality.

Thank you Madam Chairman for this opportunity to testify. I would be glad to answer any questions that you or other Board Members may have regarding my testimony.